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COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, March 12, 2002

APPLICATION OF

CASE NO. PUA010076

VIRGINIA GAS PIPELINE COMPANY

and

SALTVILLE GAS STORAGE COMPANY, L.L.C.

For approval of a transaction between affiliates

ORDER GRANTING APPROVAL

On December 12, 2001, Virginia Gas Pipeline Company (“VGPC” or the “Company”) and Saltville Gas Storage Company, L.L.C. (the “LLC”), filed an application with the State Corporation Commission (“Commission”) for approval of a transaction between affiliated interests in which VGPC will serve as the operating manager of the LLC’s proposed natural gas storage facility at Saltville, Virginia. The Company and the LLC are collectively referenced hereafter as the “Applicants.”

VGPC is a Virginia public service corporation that operates an intrastate natural gas pipeline transmission facility and an underground natural gas storage facility in southwestern Virginia under various certificates of public convenience and necessity. VGPC is a wholly owned subsidiary of Virginia Gas Company (“VGC”). VGC is a wholly owned subsidiary of NUI Corporation (“NUI”).

The LLC is a Virginia limited liability corporation whose principal office is in Abingdon, Virginia. The two current members of the LLC are NUI Saltville Storage, Inc., a Delaware

corporation, and Duke Energy Saltville Gas Storage, L.L.C., a Delaware limited liability company. NUI is the sole shareholder of NUI Saltville Storage, Inc. In an application filed with the Commission on October 26, 2001, the LLC applied for a certificate of public convenience and necessity (the “CPCN”) requesting permission to construct, develop, own, operate, and maintain an underground natural gas storage facility and attendant pipeline facility and provide specified storage services in Saltville, Virginia.¹ On January 29, 2002, the LLC filed amended and restated Articles of Organization, which state that “Saltville Gas Storage Company, LLC shall engage in the business of a public service company.”

VGPC and the LLC request approval of a transaction between the Company and the LLC wherein VGPC will serve as the operating manager of the LLC’s proposed natural gas storage facility at Saltville, Virginia. More specifically, on August 15, 2001, VGPC and the LLC entered into an agreement, the “Operating Agreement between Saltville Gas Storage Company L.L.C. and Virginia Gas Pipeline Company” (“the Operating Agreement”). Pursuant to the Operating Agreement, VGPC will serve as the Operating Manager for the LLC’s proposed underground natural gas storage facilities in or near Saltville, Virginia.

As stated in the application, the Operating Agreement provides that VGPC and the LLC desire to enter into an arrangement whereby VGPC will serve as the Operating Manager for the LLC’s proposed natural gas storage facility. Subject to oversight by the LLC’s management committee, VGPC will perform specified operational and administrative functions for the LLC, including but not limited to, the management and administration of the day-to-day business and operating affairs of the LLC. As stated in the application, examples of the management responsibilities are the investigation of the caverns, construction of the storage facility, desalinization, installation of the necessary equipment, and other operational functions.

¹ The certificate application, Case No. PUE010585, is currently pending before the Commission.

Examples of the administrative responsibilities include preparing regulatory filings and interfacing with independent contractors for regulatory accounting, insurance, legal, audit, and financial compliance.

Compensation to VGPC for such services will be as follows:

- 1) Operation and Maintenance (O&M) Costs: The LLC will pay VGPC for its proportionate share of reasonably incurred O&M Costs of the natural gas storage facilities defined as that percentage determined by the volume of available working gas capacity owned by or allocated to the LLC and its customers as a percentage of the total available working gas capacity at the natural gas storage facilities. O&M Costs means direct costs including employee benefits, compressor fuel and power, engineering, supervision, operations and maintenance labor, communications expenses, station equipment maintenance and improvements, meter maintenance and improvements, pipeline maintenance and improvements, buffer zone leased acreage, tools and equipment, vehicle costs, and other related costs.
- 2) Administrative and General (A&G) Costs: The LLC will pay VGPC for all reasonably incurred A&G Costs. Direct A&G Costs include salaries and expenses of the Operating Manager's employees involved in a managerial capacity over the project and the Operating Manager's support staff, including legal, rate, regulatory, human resources, permitting, accounting, administrative, materials management, budget, treasury, internal audit, tax information systems, policy and employee communications, planning, public relations and contract

administration personnel, other related costs and facility office equipment.

Indirect A&G Costs include general office operating costs.

- 3) Evaporation Costs: The LLC will pay VGPC for all reasonably incurred Brine Evaporation Costs and will receive all revenues generated from the sale of salt produced from the cavern(s) owned by the LLC, beginning on the date that brine is initially removed from the cavern(s) owned by the LLC. The LLC will bear no cost for, and will receive no revenues from, handling, storage, or evaporation of brine associated with cavern(s) the LLC does not own. Brine Evaporation Costs include evaporator fuel and power, engineering, supervision, operation and maintenance labor, communications expenses, equipment maintenance and improvements, pond maintenance and improvements, waste disposal costs, tools and equipment, vehicle costs, laboratory fees, personnel training, required safety equipment, and other related costs. In the event the brine evaporation is spun off as a separate salt company, the LLC will pay or charge the new entity a negotiated rate per barrel of brine disposal to be determined by the parties prior to any separation.
- 4) Capital Costs: VGPC will be reimbursed for its Capital Costs to the extent such costs are authorized in a budget approved by the management committee. The term Capital Costs refers to the share of reasonable salaries (based on the portion of time devoted to the project determined by time sheets maintained by individual employees) and the reasonable reimbursable expenses of employees of a member or affiliate of a member that are directly involved in the design, construction, and development of the project; the share of the reasonable costs of material, supplies,

and equipment used at the site of the project; and reasonable normal expenses incurred in the development of the project.

VGPC and the LLC represent that the proposed Operating Agreement is in the public interest because VGPC representatives are already knowledgeable about storage issues based on their previous experience with the construction and operation of CH-16 and CH-20² and can more efficiently manage issues related to pipeline and storage facility safety and related environmental concerns. Also, VGPC should be able to use its utility assets and personnel more efficiently, the work will complement VGPC's current utility business by providing additional flexibility and reliability to its storage facility, and sharing resources should lower VGPC's overall costs of operation. VGPC and the LLC represent that the LLC will benefit from the Operating Agreement because it will have availability of experienced and knowledgeable personnel constructing and operating the storage facility that is in close proximity to VGPC's own facility. Also, the LLC and VGPC can more efficiently use personnel and assets while still being able to capture appropriate costs and allocating them to the appropriate storage facility.

Under the Operating Agreement, VGPC will essentially be performing the day-to-day operations of the LLC's underground storage facility. VGPC proposes to provide the service because of its experience in operating the existing Saltville underground natural gas storage facility. VGPC will be reimbursed for its actual costs incurred in performing the services for the LLC. VGPC states that, initially, it does not anticipate needing to hire additional employees to perform these services. VGPC will utilize its existing staff. All costs related to labor will be accumulated on time sheets and directly allocated to a separate cost center for the LLC. These costs will be loaded for health insurance, dental insurance, life

² CH-16 and CH-20 are are injection wells in VGPC's current certificated area.

insurance, and other benefits. All other expenses and costs incurred will be directly charged to a separate cost center for the LLC and will be billed by VGPC to the LLC.

THE COMMISSION, upon consideration of the application and representations of the Applicants and having been advised by its Staff, is of the opinion and finds that the above-described Operating Agreement is in the public interest and should, therefore, be approved.

Accordingly, IT IS ORDERED THAT:

- 1) Pursuant to § 56-77 of the Code of Virginia, Virginia Gas Pipeline Company and Saltville Gas Storage Company, L.L.C., are hereby granted approval to enter into the Operating Agreement under the terms and conditions and for the purposes described herein, subject to the LLC obtaining its CPCN in Case No. PUE010585.
- 2) VGPC shall only serve as the Operating Manager and that the LLC shall be the certificate holder for the facilities.
- 3) VGPC shall be reimbursed for all costs in providing services to the LLC. Such costs shall include labor, overhead, and facilities costs. All references to salaries in the Operating Agreement shall include benefits such as health insurance, dental insurance, life insurance, and other benefits.
- 4) The approval granted herein shall not preclude VGPC from obtaining a CPCN to provide service outside its certificated area if it is determined to be a public utility under the Utility Facilities Act in connection with the proposed storage facility.
- 5) Should the terms and conditions of the Operating Agreement change from those contained herein, Commission approval shall be required for such changes.

- 6) The approval granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code of Virginia hereafter.
- 7) The Commission reserves the authority to examine the books and records of any affiliate in connection with the approval granted herein whether or not the Commission otherwise regulates such affiliate.
- 8) The Agreement approved herein shall have no ratemaking implications.
- 9) If Annual Informational and/or General Rate Case Filings are not based on a calendar year, then VGPC shall include the affiliate information contained in the Annual Report of Affiliate Transactions in such filings.
- 10) The Agreement approved herein shall be included in the Company's Annual Report of Affiliate Transactions submitted to the Commission's Director of Public Utility Accounting.
- 11) This matter shall be continued for 30 days beyond the date of the Commission's Final Order in Case No. PUE010585.